

# State Board of Equalization

## OPERATIONS MEMO

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### **Subject: Partnership Determinations**

#### **I. Background**

A review of closed-out partnership accounts by the Taxpayers' Rights Advocate Office revealed that in many cases individual general partners were not notified when a Notice of Determination was issued to the partnership. In these cases, the Notice of Determination was only mailed to the business address of the partnership. Unfortunately, the general partners in these cases were first made aware of their outstanding tax liability when active collection efforts began. In order to better inform general partners of their partnerships' tax liability, the following procedures should be adhered to by the district offices and headquarters sections when a Notice of Determination or Redetermination is to be issued to a closed-out partnership account.

#### **II. District Office Procedures**

##### **a) Field Audit Staff**

In the preparation of a Report of Field Audit (BT-414-A) or Field Billing Order (BT-414-B), the field audit staff shall include the names and addresses of all general partners in the case of a closed-out account. In the case of a field audit, staff should confirm that the address of record is correct for all general partners. This information shall either be placed on the front of the BT-414-A's or BT-414-B's under the "Analysis of Measure of Tax by Class of Transaction" section, if space permits, or on the back of the BT-414-A's or BT-414-B's under the "General Comments" section. If this information is placed on the back of either form, a statement indicating that there are general partners listed on the back of the form shall be made on the front of the BT-414-A's or BT-414-B's under the "Analysis of Measure of Tax by Class of Transaction" section. It is the district office's responsibility to obtain the names and addresses of all general partners in the event of a closed-out account.

If a reaudit report is issued and general partners were listed on the original audit report, care should be taken to include the names and addresses of all general partners on the reaudit report.

If the original audit results in a petition for redetermination and the account subsequently closes, the district office should obtain the names and addresses of all general partners and include them in a report to the Petitions Section and on all subsequent reaudit reports.

b) Field Compliance Staff

Field compliance staff issuing on-line BT-1043-D determinations to closed-out partnership accounts shall input the names and addresses of all general partners on the *Miscellaneous Name and Address* screen.

Field compliance staff should also include names and current addresses of record of all general partners at the time of close-out on the IBM Registration comment screen.

Field compliance staff issuing on-line BT-897 adjustment requests for closed-out partnership accounts shall input the names and addresses of all general partners on the comment screen and indicate that additional copies of the statement are required for all general partners.

III. Headquarters Section Procedures

a) Centralized Audit Review Section

As part of their normal audit review procedures, the Centralized Audit Review Section shall review all BT-414 -A's or BT-414-B's received from the district offices for the names and addresses of any general partners in the case of a close-out audit or field billing order. The Centralized Audit Review Section will then input the names and addresses of all general partners using the ADDR option from the BILL menu under the Audit Management System.

b) Petitions Section

The Petitions Section prepares BT-1269, "Balance Adjustment Order," when an adjustment is made on the account as a result of a petition for redetermination or adjustment to final liabilities. The basis for a BT-1269 is usually a reaudit report or BT-897 Adjustment Request prepared by the district office. The reaudit report should have the names and addresses of any general partners either on the front of the reaudit report or on the back with a notation on the front indicating that there are additional partners on the back. The BT-897 should have the names and addresses of any general partners on the miscellaneous comment screen. When an on-line BT-1269 is prepared, extra copies of the statement will be sent to the general partners by indicating extra copies required and inputting names and addresses of the general partners on the on-line BT-1269. Where the on-line program is not utilized, the information is input on Form BT-1362 and submitted with Form BT-1269 to the Account Analysis and Control Section.

The Petitions Section prepares BT-1268, "Refund Order," as a result of overpayment from adjustment. In the case of partnership, at least two general partners' names are required; therefore, it is necessary to suppress the registered name and input two general partner's names.

c) Return Analysis Section

As part of their normal procedures, the Return Analysis Section (RAS) issues determinations on invalid or unresolved deductions. The ARCIS accounts receivable billing system reads the BOE registration file and recognizes closed

out accounts. As a determination is billed on-line, a closed out account will be marked "MISC/CC" by the system on the "TAG ONE ADDRESS" line. This will cause the miscellaneous name and address maintenance screen to appear automatically during the on-line billing process. RAS personnel will check the taxpayer's registration information to determine if general partners are listed in ownership information. The RAS personnel will complete the miscellaneous name and address screen with each general partner's name and address as the on-line determination is processed. If for some reason, the determination cannot be issued in ARCIS, RAS personnel will prepare a BT-1266 to issue it manually. A BT-1362 listing each partner's name and address will be prepared and submitted with the BT-1266 as well.

d) Consumer Use Tax Section

As part of their normal review of source information, the Consumer Use Tax Section will identify those transactions that may be subject to use tax. The purchasing party is then assigned an account number and sent an inquiry letter and consumer use tax return to report and pay use tax on the purchase price. If no response is received, a Notice of Determination will be prepared based upon an estimated amount; information available to the Board; or the selling price reported by the seller. If it is necessary to send a copy to each general partner or co-owner, the operator must request an additional copy of the billing. The operator will identify an additional copy is necessary by entering a "Y" in the "change mail address field." This option will bring up the miscellaneous name and address (MNA) screen so that names and addresses of additional partners or co-owners may be input. There is no limit to the number of copies that can be requested through the MNA screen.

IV. Obsolescence

This operations memo will become obsolete when procedures contained within are incorporated into the appropriate manuals.

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